Department of Finance Canada

2010–11

Departmental Performance Report

James M. Flaherty
Minister of Finance

Table of Contents

Minister's Message 1

Section I: Organizational Overview 3

- Raison d'être 3
- Responsibilities 3
- Strategic Outcome and Program Activity Architecture 3
- Organizational Priorities 5
- Risk Analysis 7
- Summary of Performance 9
- Expenditure Profile 11
- Estimates by Vote 16

Section II: Analysis of Program Activities by Strategic Outcome 17

- Program Activity 1.1: Economic and Fiscal Policy Framework 17
- Performance Summary and Analysis of Program Activity 20
- Lessons Learned 30
- Program Activity 1.2: Transfer and Taxation Payment Programs 31
- Performance Summary and Analysis of Program Activity 33
- Lessons Learned 35
- Program Activity 1.3: Treasury and Financial Affairs 36
- Performance Summary and Analysis of Program Activity 38
- Lessons Learned 39
- Program Activity 1.4: Internal Services 40
- Performance Summary and Analysis of Program Activity 41
- Lessons Learned 44

Section III: Supplementary Information 45

- Financial Highlights 45
- Financial Statements 45
- List of Supplementary Information Tables 46

Section IV: Other Items of Interest 47
Sustainable Development Strategy 47
Organizational Contact Information..... 47

Minister's Message

The Honourable James M. Flaherty

I am pleased to present the *2010–11 Departmental Performance Report*, which highlights the Department of Finance Canada's actions over the past year to improve Canada's long-term economic prospects and to address the many challenges that remain following the global economic crisis.

In 2010–11, the Department supported the implementation of year two of Canada's Economic Action Plan. It did this by monitoring, assessing and reporting on overall Economic Action Plan progress, as well as by directly overseeing the Extraordinary Financing Framework to improve access to financing for Canadian households and businesses. In addition to providing sound fiscal management, the Department helped ensure the responsible use of tax dollars by assisting the government in undertaking a comprehensive review of federal operating and program expenditures and by supporting the government's plan to eliminate the deficit and return to balanced budgets. In its efforts to contribute to Canada's recovery, the Department developed and implemented policies and programs that improved Canadian productivity, for example, reducing red tape for businesses through initiatives such as creating a tariff-free zone for manufacturers, and attracting venture capital by eliminating the need for tax reporting for many investments. In 2010–11, the Department also took measures to promote fair business practices by introducing a *Code of Conduct for the Credit and Debit Card Industry in Canada*, and to protect Canadian consumers through credit card regulations and adjustments to the rules on government-backed insured mortgages.

Throughout 2010–11, the Department continued to play a central role in programs supporting provincial and territorial governments. This included the administration of transfer payments to provinces and territories, which brought the total federal support to the highest level ever. In 2010, the Department reached an agreement with the provinces and territories on a framework for the introduction of a new kind of pension plan, called the Pooled Registered Pension Plan. The Department is working with the provinces and territories and consulting with the private sector to create these private sector pension plans to improve access to pensions for working Canadians.

With Canada as chair of the G7 process in 2010 and chair of the G20 Leaders' Summit in Toronto in June 2010, the Department played a key role in developing the international economic agenda. During 2010–11, the Department worked with other G20 countries to address

the causes of the international financial crisis and to determine the actions needed to stabilize financial markets and reform the global financial system.

While the Canadian economic recovery strengthened through 2010–11, the global economy remains fragile. As a result, the Department will continue to support the government's transition from providing temporary support to protect jobs and output, to balancing the federal budget and creating the right conditions for sustainable long-term growth that will benefit all Canadians as outlined in *The Next Phase of Canada's Economic Action Plan: A Low-Tax Plan for Jobs and Growth*.

Section I: Organizational Overview

Raison d'être

The Department of Finance Canada is committed to making a difference for Canadians by helping the Government of Canada develop and implement strong and sustainable economic, fiscal, tax, social, security, international and financial sector policies and programs. It plays an important role in ensuring that government spending is focused on results and delivers value for taxpayer dollars. The Department interacts extensively with other federal organizations and plays a pivotal role in the analysis and design of public policy across a wide range of issues affecting Canadians.

Responsibilities

The Department of Finance Canada's responsibilities include the following:

- Preparing the federal Budget and the Update of Economic and Fiscal Projections;
- Developing tax and tariff policy and legislation;
- Managing federal borrowing on financial markets;
- Designing and administering major transfers of federal funds to the provinces and territories;
- Developing financial sector policy and legislation; and
- Representing Canada in various international financial institutions and groups.

The Department also plays an important central agency role, working with other departments to ensure that the government's agenda is carried out and that ministers are supported with first-rate analysis and advice.

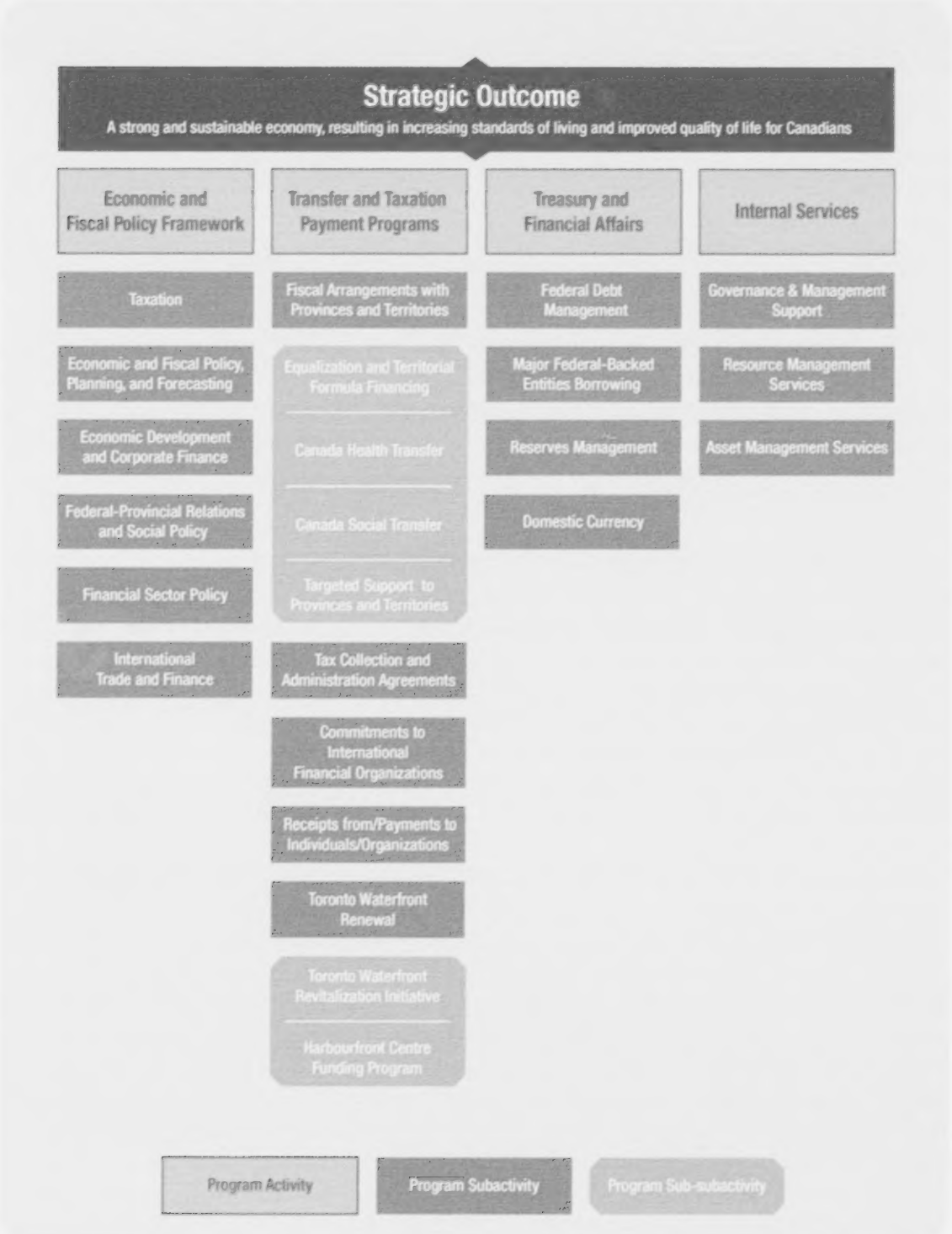
The Minister of Finance is accountable for ensuring that his responsibilities are fulfilled both within his portfolio and with respect to the authorities assigned through legislation.

Strategic Outcome and Program Activity Architecture

The Department of Finance Canada provides effective economic leadership through its clear focus on one strategic outcome:

- A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians.

The Department's Program Activity Architecture (PAA) is presented below.


Strategic Outcome
A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians
Economic and Fiscal Policy Framework
Transfer and Taxation Payment Programs
Treasury and Financial Affairs
Internal Services
Taxation
Economic and Fiscal Policy, Planning, and Forecasting
Economic Development and Corporate Finance
Federal-Provincial Relations and Social Policy
Financial Sector Policy
International Trade and Finance
Fiscal Arrangements with Provinces and Territories
Equalization and Territorial Formula Financing
Canada Health Transfer
Canada Social Transfer
Targeted Support to Provinces and Territories
Tax Collection and Administration Agreements
Commitments to International Financial Organizations
Receipts from/Payments to Individuals/Organizations
Toronto Waterfront Renewal
Toronto Waterfront Revitalization Initiative
Harbourfront Centre Funding Program
Federal Debt Management
Major Federal-Backed Entities Borrowing
Reserves Management
Domestic Currency
Governance & Management Support
Resource Management Services
Asset Management Services
Program Activity
Program Subactivity
Program Sub-subactivity

Organizational Priorities

The overarching goal of the Department of Finance Canada for 2010–11 was to complete the effective and efficient implementation of the measures announced in Canada's Economic Action Plan. In doing so, the Department's efforts focused on four key priorities.

Performance/Priority Status Legend

Exceeded: More than 100 per cent of the expected level of performance was achieved during the fiscal year.

Met all: 100 per cent of the expected level of performance was achieved during the fiscal year.

Mostly met: 80 to 99 per cent of the expected level of performance was achieved during the fiscal year.

Somewhat met: 60 to 79 per cent of the expected level of performance was achieved during the fiscal year.

Not met: Less than 60 per cent of the expected level of performance was achieved during the fiscal year.

Priority	Type	Program Activities
Sound Fiscal Management	Ongoing	Economic and Fiscal Policy Framework Treasury and Financial Affairs
Status: Met all		

- Over the planning period, the Department of Finance Canada continued to play a major role in ensuring that the government managed spending responsibly, maximized the benefits of government assets to Canadians, and took measures to reduce the cost of government operations while ensuring their effectiveness.
- The Department also worked to protect Canada's macroeconomic framework and ensure the sustainability of Canada's social safety net.
- Finally, the Department continued to manage the government's funds in accordance with the guiding principles of transparency, regularity, liquidity and prudence.

Priority	Type	Program Activity
Sustainable Economic Growth	Ongoing	Economic and Fiscal Policy Framework
Status: Met all		

- The Department of Finance Canada promoted sustainable economic growth by developing and implementing policies and programs that appropriately support the drivers of productivity growth: business investment, public infrastructure, human capital, innovation and financial market governance.
- As the government's source of analysis and advice on economic and fiscal matters, the Department continued to help ensure that policies and programs create the conditions necessary for both sustainable long-term economic growth and the country's emergence from the global economic downturn. This included putting in place sound policies to help mitigate the downside risks to the economy and create the conditions necessary to secure long-term growth potential.

Priority	Type	Program Activities
Sound Social Policy Framework	Ongoing	Economic and Fiscal Policy Framework Transfer and Taxation Payment Programs
Status: Met all		

- The Department of Finance Canada supported the government's efforts to enable the funding of national priorities while ensuring that reasonably comparable services can be provided at reasonably comparable tax rates across the country through the effective design of payment programs and the sound administration of major federal transfers. This in turn contributed to the government's efforts to ensure equality of opportunity for all citizens and to meet its objectives for the quality of life in Canada's communities and their health care, post-secondary education and social safety net programs.
- The Department also provided analysis and advice on the fiscal and economic implications of the government's social policies and programs related to health care, immigration, labour markets and employment insurance, public pensions, post-secondary education, Aboriginal and cultural programs, and programs for seniors, persons with disabilities, veterans and children.

Priority	Type	Program Activity
Effective International Influence	Ongoing	Economic and Fiscal Policy Framework
Status: Met all		
• As chair of the G7 process in 2010 and co-chair of the G20 Leaders' Summit in June 2010, the Department of Finance Canada played an important role in developing the agenda for international economic cooperation in 2010. This provided an opportunity to raise issues that are of critical importance to Canada and the rest of the world. The Department worked with other G20 countries to address the causes of the international financial crisis, determine actions to support financial markets and growth, and reform the global economic and financial system to prevent the reoccurrence of a similar crisis. • The Department also continued to advance Canada's leadership in a wide range of international financial institutions and economic organizations. This helped strengthen global growth and stability, promote Canada's trade and investment interests, foster effective and innovative aid policies aimed at reducing global poverty, endorse policies and programs that support maintaining secure and open borders, and further international standards to prevent abuses to the international financial system, including anti-terrorist financing. Finally, the Department assisted the government in creating economic conditions that encouraged Canadian businesses to invest, flourish and take advantage of trade and foreign investment.		

Risk Analysis

Canada weathered the global recession better than most other industrialized countries, and the recovery is underway. Throughout the recovery, growth has been fuelled by a strong rebound in consumer and business expenditures, reflecting in part the positive impact of Canada's Economic Action Plan on consumer and business confidence and the effects of low interest rates. The strength of the domestic economy has however been partially offset by weak external demand for Canadian goods and services, which has left the level of exports significantly below the pre-recession level. This reflects the relatively slow growth in Canada's trading partners combined with a strong Canadian dollar.

Global private sector financial conditions have improved since the start of the financial crisis. Strains in wholesale banking markets have largely dissipated, and corporate borrowing costs have significantly declined. This improvement was a key driver of global economic activity in 2010. While improved private sector financial conditions reflect the impact of policy measures worldwide, financial markets have become increasingly concerned since early 2010 about the sustainability of public finances in a number of countries.

In Canada, the financial crisis had considerably less impact than in other countries. Borrowing costs remained relatively low, and credit continued to grow at a solid pace during the crisis,

reflecting in part that Canada's financial institutions were better capitalized and less leveraged going into the global recession than their international counterparts.

With the return of stability in financial market conditions and an improved economic outlook, the government continued to wind down the Extraordinary Financing Framework measures, which were introduced to improve access to financing for Canadian households and businesses, as the need for measures of economic and financial support significantly declined.

However, sovereign debt issues in Europe as well as higher and volatile oil prices—and their implications for global growth and inflation—as well as overheating in some emerging economies represent the main risks. In addition to these external risks, there are key challenges at home. An aging population and low productivity growth continue to be long-term concerns that require careful management to ensure that government programs and services remain sustainable, effective and accessible to all Canadians.

Within this context, the Department of Finance Canada managed a number of corporate risks in 2010–11, including international pressures, the need for highly skilled staff, and security matters.

In 2010–11, the Department continued to monitor global economic conditions and risks to stability. The Department leveraged its network of overseas finance counsellors, its relationship to the office of the Canadian Executive Director at the International Monetary Fund, and its G7 and G20 contacts to gather timely and in-depth information about global economic issues. This information helped the Department to provide effective policy advice and react quickly to changing economic conditions.

The Department also maintained a high level of engagement in international bodies, including the G7, G8, G20 and the Financial Stability Board, and with partners to influence decisions and promote alignment of international priorities with domestic priorities.

The Department needs access to highly skilled staff and tools that fulfill the operational capacity needed to provide timely and accurate policy advice and support services and to produce deliverables like the Update of Economic and Fiscal Projections, the Budget, reports to Canadians, and other documents.

To meet this need for highly skilled staff, the Department used its integrated business planning process to assess and prioritize operations and activities in light of constraints. Staffing plans prepared as part of the business planning process identified staffing needs to manage risks and deliver on priorities. However, heightened workload in some areas and an increased emphasis on fiscal restraint continue to challenge operational capacity.

Like all departments and agencies, the Department must be ever vigilant about the risk of security breaches that could impact the delivery of critical services. For example, an information technology (IT) security incident in early 2011 highlighted the need for improved security on the Department's computer network and the need for improved awareness by employees regarding information security. Considerable effort has been directed at improving IT security at the Department, and further work will take place in 2011–12.

Summary of Performance

2010–11 Financial Resources ($ millions)

Planned Spending	Total Authorities	Actual Spending
88,652.8	161,146.9	160,835.8

2010–11 Human Resources (full-time equivalents—FTEs)

Planned	Actual	Difference
818	835	(17)

Strategic Outcome: A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians

Performance Indicators	Targets	2010–11 Performance
Real gross domestic product (GDP) growth	No target. The goal is to compare favourably with G7 counterparts.	**Exceeded** Canada has fared better than all other G7 countries during the global recession, and has more than fully recouped all of the output lost during the recession.
Unemployment rate	No target. The goal is to compare favourably with G7 counterparts.	**Exceeded** Canada has posted the strongest employment growth among G7 countries since June 2009, recouping more than all the jobs lost during the recession.
Annual fiscal balance as a share of GDP and debt-to-GDP ratio	No target. The goal is to compare favourably with G7 counterparts.	**Exceeded** In 2010–11, in spite of the impacts of the global economic recession and the significant government response to it in the form of the stimulus measures in Canada's Economic Action Plan, Canada maintained a significantly lower net debt-to-GDP ratio than all other G7 countries. In 2010, Canada's total government net debt-to-GDP ratio stood at 32.2 per cent, compared to a G7 average of 73.3 per cent.

Program Activity	2009–10 Actual Spending ($ millions)	2010–11* ($ millions)				Alignment to Government of Canada Outcome
		Main Estimates	Planned Spending	Total Authorities	Actual Spending	
PA 1.1: Economic and Fiscal Policy Framework	90.8	75.8	75.8	101.9	88.1	Strong economic growth
Canadian Millennium Scholarships Foundation – Deposit of funds to the Consolidated Revenue Fund				(121.3)	(121.3)	
Net Balance				(19.4)**	(33.2)**	
PA 1.2: Transfer and Taxation Payment Programs	51,223.2	54,570.8	54,570.8	56,593.8	56,298.8	All outcomes***
PA 1.3: Treasury and Financial Affairs	147,021.9	33,833.0	33,960.2	104,519.7	104,519.7	All outcomes***
Total	198,335.9	88,479.6	88,606.8	161,094.1	160,785.3	

* Commencing in the 2009–10 Estimates cycle, the resources for the Internal Services program activity are displayed separately from other program activities; they are no longer distributed among the remaining program activities, as was the case in previous Main Estimates. This change has affected the comparability of spending and FTE information by program activity between fiscal years.

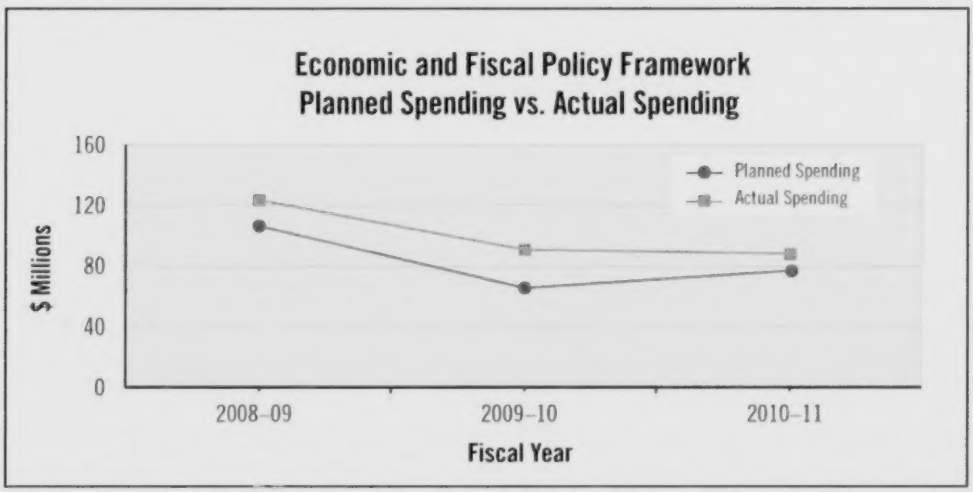
** The net balances for Total Authorities and Actual Spending in the Economic and Fiscal Policy Framework program activity appear as net credits because of a $121.3 million deposit to the Consolidated Revenue Fund arising from the dissolution of the Canadian Millennium Scholarships Foundation.

*** In accordance with input received from the Treasury Board of Canada Secretariat during the development of the Department's PAA, the Transfer and Taxation Payment Programs and Treasury and Financial Affairs program activities have been designated as aligning with all government outcomes.

Program Activity	2009–10 Actual Spending ($ millions)	2010–11 ($ millions)			
		Main Estimates	Planned Spending	Total Authorities	Actual Spending
PA 1.4: Internal Services	48.6	46.0	46.0	52.8	50.5

Expenditure Profile

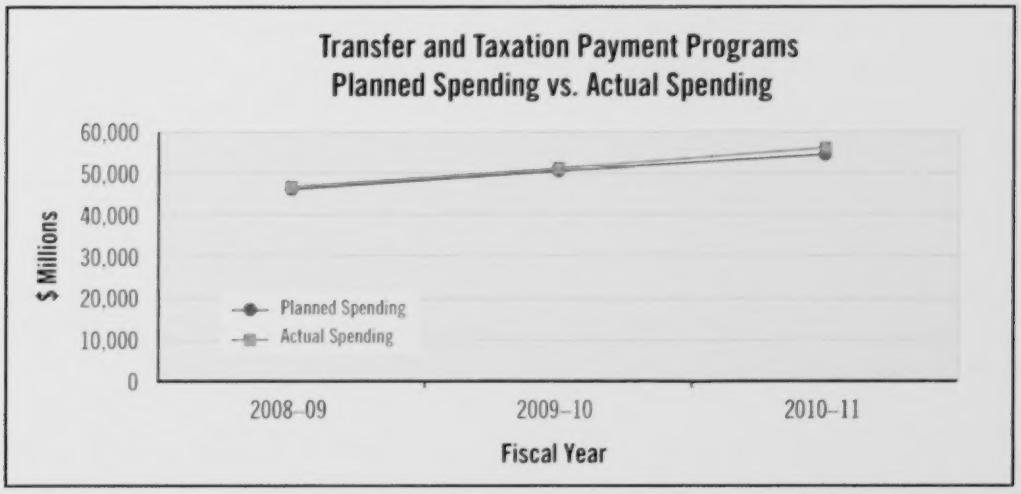
The Department of Finance Canada's actual spending in 2010–11 was $161 billion. The graphs below illustrate the Department's actual spending in comparison to planned spending by program activity from 2008–09 to 2010–11.



The Economic and Fiscal Policy Framework program activity includes work associated with the establishment of a Canadian Securities Regulation regime and a Canadian Regulatory Authority as well as departmental operating expenditures and employee benefits. Planned spending varies from actual spending primarily because of additional spending authorities that are granted through the Supplementary Estimates process. In 2010–11, the Economic and Fiscal Policy Framework program activity received additional spending authorities through the Supplementary Estimates in the amount of $10 million for advertising and $2.4 million for the Task Force for the Review of the Payment System.

Actual spending in 2010–11 decreased by $2.7 million compared to 2009–10. There was a decrease in operating expenditures and employee benefit plans of $10.6 million, offset by an increase in statutory expenditures of $7.9 million for the Canadian Securities Transition Office.

The decrease of $31.9 million in actual spending from 2008–09 to 2009–10 was attributable to the separate reporting of the Internal Services program activity starting in 2009–10. Prior to 2009–10, Internal Services were reported as part of the Economic and Fiscal Policy Framework program activity.

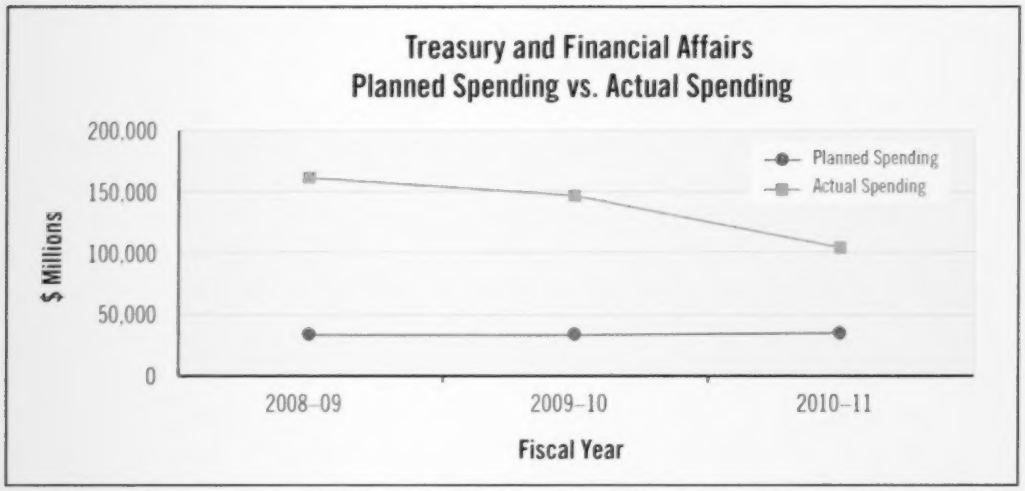


* Most spending in this program activity relates to transfer payments from the federal government to other levels of government.

The Transfer and Taxation Payment Programs program activity administers transfer and taxation payments to the provinces and territories, taxation payments to Aboriginal governments, transfers to international financial institutions for the purposes of debt relief, and financial and technical assistance to developing countries.

In 2010–11, actual spending for the Transfer and Taxation Payment Programs program activity increased by $5.1 billion, from $51.2 billion in 2009–10 to $56.3 billion in 2010–11. Payments to Ontario and British Columbia related to the harmonized sales tax framework made up $3.5 billion of this increase. The remainder can be explained by increases in transfer payments for the Canada Health Transfer, the Canada Social Transfer, Fiscal Equalization, and Territorial Formula Financing, which have increased according to legislation. The Canada Health Transfer has grown by 6 per cent annually, and the Canada Social Transfer by 3 per cent annually. Territorial Formula Financing has grown in line with its legislated funding framework, and the Equalization program has increased in line with the economy.

The increase of $3 billion in actual spending from 2008–09 to 2009–10 was attributable to increases in statutory programs.

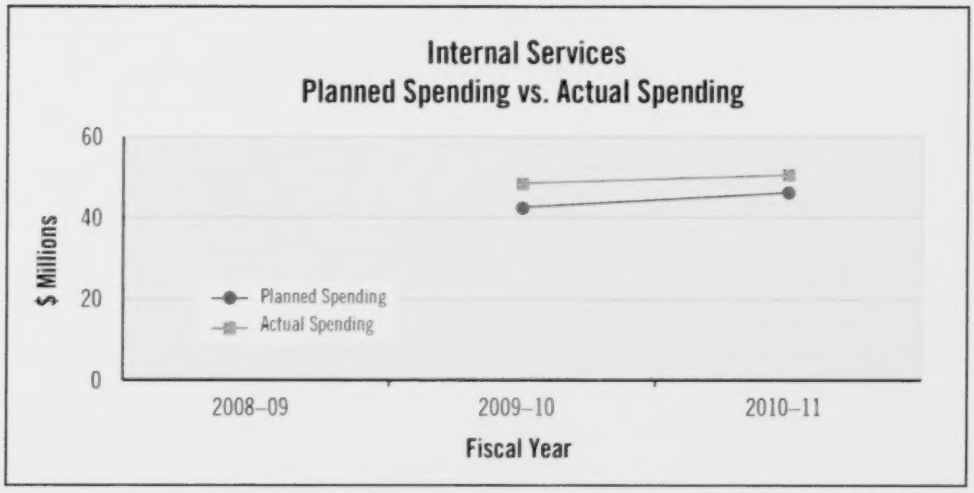


The Treasury and Financial Affairs program activity includes loans to Crown corporations, interest and other costs related to the public debt, and expenditures related to domestic coinage.

Planned spending in 2010–11 did not include $76.4 billion related to gross borrowing requirements of Crown corporations. The government announced in Budget 2007 that it would meet all of the domestic borrowing needs of Farm Credit Canada, the Business Development Bank of Canada, and the Canada Mortgage and Housing Corporation through direct lending in order to reduce overall borrowing and improve the liquidity of the government securities market.

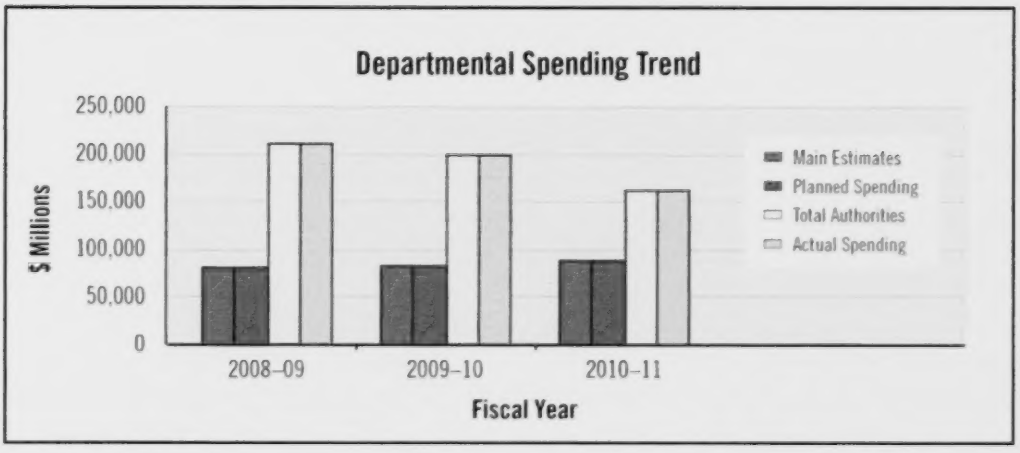
In 2010–11, actual spending for the Treasury and Financial Affairs program activity decreased by $42.5 billion, from $147.0 billion in 2009–10 to $104.5 billion in 2010–11. This decrease is a result of a decrease in the gross borrowing requirements ($43.2 billion) of Farm Credit Canada, the Business Development Bank of Canada, and the Canada Mortgage and Housing Corporation. This decrease was offset by an increase of $0.7 billion in interest and other costs related to an increase in public debt levels.

The decrease of $15 billion in actual spending from 2008–09 to 2009–10 was attributable to a $12 billion decrease in the gross borrowing requirements of Farm Credit Canada, the Business Development Bank of Canada, and the Canada Mortgage and Housing Corporation, while the remaining $3 billion decrease was attributable to reduced interest and other costs resulting from a significantly reduced interest rate environment in 2009–10.



The Internal Services program activity involves activities and resources that support program activities of the Department. Prior to 2009–10, Internal Services spending was presented as part of the Economic and Fiscal Policy Framework program activity.

In 2010–11, actual spending for the Internal Services program activity increased by $1.9 million, from $48.6 million in 2009–10 to $50.5 million 2010–11. This increase was in support of other program activities within the Department.



Canada's Economic Action Plan

A key priority during 2010–11 was the continued effective and timely implementation of Canada's Economic Action Plan, including reporting on progress. The Economic Action Plan, announced in Budget 2009, is a $60-billion plan to protect and create jobs in response to the deepest global recession since the Second World War.

In its first year of implementation, 2009–10, close to $32 billion in support was provided to individuals and businesses affected by the economic downturn. Approximately $25 billion in additional support for the recovery was delivered in 2010–11. Investments made through the Economic Action Plan have provided significant support to jobs and growth and have helped promote economic stability for Canadians during the worst of the global recession. As of March 2011, more than 28,500 Economic Action Plan projects were underway across Canada or had been completed.

The Department of Finance has coordinated with other central agencies and departments to ensure the speedy and efficient delivery of resources allocated under the Economic Action Plan. The Department has continued to monitor, assess and report on the progress of the Action Plan's stimulus measures. In 2010–11, in consultation with other federal departments responsible for implementing the Action Plan, the Department prepared and published the Sixth and Seventh Reports to Canadians on the Economic Action Plan in September 2010 and January 2011, respectively. These reports also included an analysis of the impact of these stimulus measures on the Canadian economy. In the *2010 Fall Report of the Auditor General of Canada*, it was noted that the selected EAP programs that were audited had been adequately managed by putting in place appropriate management practices and by providing programs to eligible recipients in a timely manner.[1]

In 2010–11, the Department of Finance Canada received funding of $2.8 million as part of Canada's Economic Action Plan.

The Reports to Canadians on Canada's Economic Action Plan can be found at www.actionplan.gc.ca.

1. *2010 Fall Report of the Auditor General of Canada*, http://www.oag-bvg.gc.ca/internet/English/parl_oag_201010_01_e_34284.html#hd3d

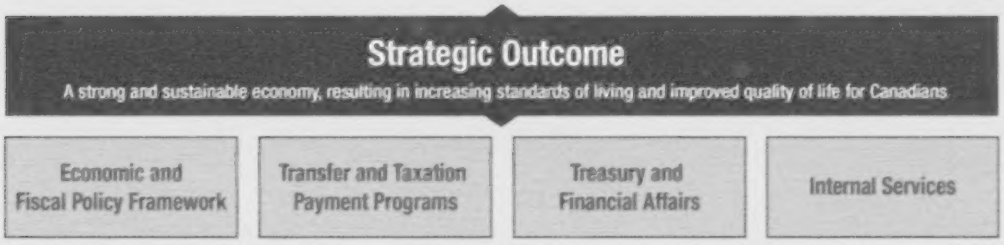
Estimates by Vote

For information on the Department of Finance Canada's organizational Votes and/or statutory expenditures, please see the *Public Accounts of Canada 2010* (Volume II) publication. An electronic version of the Public Accounts is available on the Public Works and Government Services Canada website.[2]

2. *Public Accounts of Canada 2010* (Volume II), http://www.tpsgc-pwgsc.gc.ca/recgen/txt/72-eng.html

Section II: Analysis of Program Activities by Strategic Outcome

The Department of Finance Canada provides effective economic leadership with a clear focus on one strategic outcome, which all program activities support.


Strategic Outcome
A strong and sustainable economy, resulting in increasing standards of living and improved quality of life for Canadians
Economic and Fiscal Policy Framework
Transfer and Taxation Payment Programs
Treasury and Financial Affairs
Internal Services

This section presents the Department of Finance Canada's four program activities, their expected results and performance indicators, and the financial and non-financial resources that were dedicated to each.

Program Activity 1.1: Economic and Fiscal Policy Framework

Program Activity Description

This program activity is the primary source of advice and recommendations to the Minister of Finance on issues, policies and programs of the Government of Canada related to the areas of economic and social policy, federal-provincial fiscal relations, financial affairs, taxation, and international trade and finance. The aim of this program activity is to create a sound and sustainable fiscal and economic framework that will generate sufficient revenues and provide for the management of expenditures in line with the Budget Plan and financial operations of the Government of Canada.

The work conducted by this program activity involves extensive research, analysis, and consultation and collaboration with partners in both the public and private sectors, including the federal government, the Cabinet and the Treasury Board, Parliament and parliamentary committees, the public and Canadian interest groups, departments, agencies and Crown Corporations, provincial and territorial governments, financial market participants, the international economic and finance community, and the international trade community. In addition, this program manages negotiation of agreements, drafting of legislation and sponsoring of bills through the parliamentary process, which are subsequently administered by other program activities within the Department and by other government departments and agencies.

2010–11 Financial Resources ($ millions)

Planned Spending	Total Authorities	Actual Spending
75.8	(19.4)*	(33.2)*

* Total Authorities and Actual Spending in the Economic and Fiscal Policy Framework program activity appear as net credits because of a $121.3 million deposit to the Consolidated Revenue Fund arising from the dissolution of the Canadian Millennium Scholarships Foundation.

2010–11 Human Resources (full-time equivalents—FTEs)

Planned	Actual	Difference
535	541	(6)

Performance/Priority Status Legend

Exceeded: More than 100 per cent of the expected level of performance was achieved during the fiscal year.

Met all: 100 per cent of the expected level of performance was achieved during the fiscal year.

Mostly met: 80 to 99 per cent of the expected level of performance was achieved during the fiscal year.

Somewhat met: 60 to 79 per cent of the expected level of performance was achieved during the fiscal year.

Not met: Less than 60 per cent of the expected level of performance was achieved during the fiscal year.

Expected Results	Performance Indicators	Targets	Performance Status
An economic, social and fiscal framework that supports financial stability, sustainable growth, productivity, competitiveness and economic prosperity	Annual fiscal balance as a share of gross domestic product (GDP) and debt-to-GDP ratio	No target. The goal is to compare favourably with G7 counterparts.	**Exceeded** In 2010–11, in spite of the impacts of the global economic recession and the significant government response to it in the form of the stimulus measures in Canada's Economic Action Plan, Canada maintained a significantly lower net debt-to-GDP ratio than all other G7 countries. In 2010, Canada's total government net debt-to-GDP ratio stood at 32.2 per cent, compared to a G7 average of 73.3 per cent.

Expected Results	Performance Indicators	Targets	Performance Status
An economic, social and fiscal framework that supports financial stability, sustainable growth, productivity, competitiveness and economic prosperity	Competitiveness and efficiency of Canada's tax system	No target. The goal is to continue to propose changes to the tax system that improve incentives to work, save and invest.	**Met All** The Department of Finance Canada supported the government's ongoing efforts to work with provinces and territories toward achieving the goal of a 25-per-cent combined federal-provincial statutory corporate income tax rate by 2012. Progress toward a 10-per-cent statutory provincial-territorial corporate income tax rate has been achieved. As a result of federal and provincial business tax changes that took effect in 2010, Canada's overall tax rate on new business investment is now substantially lower than that in any other G7 country. The Department also continued to make progress during 2010–11 on improving Canada's international taxation rules, including implementation of international taxation measures set out in Budget 2010, which can be consulted at: http://www.budget.gc.ca/2010/plan/anx5-eng.html#a38.
	Stability of financial services sector	No target. The long-term goal is to contribute to low and stable interest rates.	**Met all** In 2010–11, the Department of Finance Canada supported the Economic and Fiscal Policy Framework by fostering a strong and effective financial sector regulatory and supervisory framework, robust financial institutions and markets, and a competitive environment to facilitate access to financing.

Performance Summary and Analysis of Program Activity

The Department of Finance Canada continued to fulfill its central agency role by providing advice to the Minister on the economic and fiscal implications of various policy and federal program issues. This included the provision of high-quality briefings to the Deputy Minister and the Minister of Finance, and the development of two Economic Action Plan progress reports.

Supporting Prudent Fiscal Management

In 2010–11, the Department of Finance Canada was responsible for the preparation of the *Update of Economic and Fiscal Projections October 2010*[3] and the *Annual Financial Report of the Government of Canada Fiscal Year 2009–2010*,[4] the monthly publication of the *Fiscal Monitor*[5] and the March 2011 Budget.[6]

As part of these responsibilities, the Department provided sound advice on activities and expenditures in the context of funding requests and ensured that the government remains on track to return the budget to balance over the medium term.

During the fiscal year, the Department analyzed the economic and fiscal situation of the country and advised the Minister on the government's fiscal framework. It also provided the Minister with analytical support on a wide range of economic and financial issues related to the government's macroeconomic policies. The Department undertook four surveys of private sector forecasters in the 2010–11 fiscal year (June 2010, September 2010, December 2010 and March 2011), and continues to assess potential risks to the economic outlook.

Given the complex interaction among international and domestic economic and policy developments, the Department closely monitored economic developments in our major trading partners, particularly the United States. In addition, the Department prepared documentation for expert-level economic policy discussions at the Organisation for Economic Co-operation and Development (OECD) and took the lead role in facilitating the economic surveillance of Canada carried out annually by the OECD and the International Monetary Fund.

3. *Update of Economic and Fiscal Projections October 2010*, http://www.fin.gc.ca/ec2010/efp-pef-eng.asp
4. *Annual Financial Report of the Government of Canada Fiscal Year 2009–2010*, http://www.fin.gc.ca/afr-rfa/2010/index-eng.asp
5. *Fiscal Monitor*, http://www.fin.gc.ca/pub/fm-rf-index-eng.asp
6. March 2011 Budget, http://www.budget.gc.ca/march-mars-2011/home-accueil-eng.html

Supporting the Competitiveness and Efficiency of Canada's Tax System

Continued progress toward achieving a 10-per-cent statutory provincial-territorial corporate income tax rate has helped improve the efficiency of the tax system and ensure that Canada's statutory tax rate remains internationally competitive. As a result of federal and provincial business tax changes that took effect in 2010, Canada's overall tax rate on new business investment is now substantially lower than that in any other G7 country.

The Department of Finance Canada continued to make progress during 2010–11 on improving Canada's international taxation rules. Key developments during this time included:

- Implementing international taxation measures contained in Budget 2010, including the narrowing of the definition of taxable Canadian property;
- Releasing for comment draft legislation to implement the Budget 2010 measure related to foreign tax credit generators;
- Releasing for comment draft legislation relating to the application of Part XIII of the *Income Tax Act* withholding tax to interest in respect of debts owed to non-arm's length non-resident persons;
- Consulting with a panel of respected tax practitioners on the Budget 2010 proposals related to foreign investment entities and non-resident trusts, and subsequently releasing for comment draft legislation;
- Re-releasing a package of draft foreign affiliate amendments, and advancing work on another package of foreign affiliate amendments; and
- Continuing to work with the Canada Revenue Agency on improving the usefulness of international taxation data.

In 2010–11, one tax treaty and one tax information exchange agreement (TIEA) came into force; one tax treaty and 13 TIEAs were signed; two tax treaty negotiations and 10 TIEA negotiations were launched; and five ongoing tax treaty negotiations were completed.

The Department supported the government's efforts to improve the fairness and efficiency of the personal income tax system and to promote an educated and skilled workforce. In particular, measures were implemented, effective January 2011, to help recognize the cost of obtaining professional or occupational certification, and to support students studying abroad.

The Department has also supported the implementation of measures intended to protect the government's revenue base, and ensure the fairness and integrity of the Canadian tax system.

The Department continued working with the Canada Revenue Agency, the Canada Border Services Agency and Statistics Canada to follow through on implementing the new modernized harmonized sales tax (HST) framework. This included passing regulations related to the implementation of the HST in Ontario and British Columbia, entering into a new Canada-Nova Scotia Comprehensive Integrated Tax Coordination Agreement reflecting the new modernized HST framework, and passing regulations related to changes in the HST in Nova Scotia.

Progress was also made on the commitment to continue working with eligible provinces to ensure timely and accurate payments of the temporary financial incentive introduced in Budget 2007 to encourage the removal of provincial capital taxes. By 2012, all provincial general capital taxes will be eliminated.

The Department participated in more than 30 sessions with provinces and Aboriginal groups to negotiate the tax elements of final and agreement-in-principle comprehensive land claims and self-government agreements.

Supporting the Financial System

The Department of Finance Canada played a lead role on numerous initiatives in the financial sector both domestically and internationally. On the domestic front, it actively coordinated operations with the Bank of Canada and federal Crown corporations with the goal of contributing toward prudent and cost-effective management of the government's treasury activities and financial affairs. In addition, the Department worked closely with its partner agencies through the Senior Advisory Committee[7] to identify key vulnerabilities to financial stability, potential responses, possible changes in the government-backed mortgage insurance sector, and reforms for the over-the-counter derivatives market in Canada.

Internationally, the Department continued to participate in the G20 and the Financial Stability Board (FSB), principally through membership in the FSB Plenary and the Standing Committee on Standards Implementation. Through active participation in the FSB, the Department and its partner agencies contributed to the development and implementation of the G20 financial sector reform agenda by providing analytical support in evaluating the implications for capital markets of regulatory measures and various reform initiatives advanced in response to the financial crisis.

7. An advisory committee to the Minister tasked with identifying and discussing financial sector policy issues and vulnerabilities to the stability of the financial system, and exchanging information between senior officials in the financial sector within the Finance portfolio.

The Department also worked in cooperation with interagency partners, notably the Office of the Superintendent of Financial Institutions Canada and the Bank of Canada, to successfully deliver new international capital and liquidity standards to G20 Leaders.

Progress continued to be made on other elements of the G20 financial sector reform agenda, including how to address systemically important financial institutions, derivatives trading, and convergence of global accounting standards.

Establishing a Canadian securities regulator remained a priority for the Department in 2010–11. In May 2010, the government tabled for information in Parliament the proposed Canadian Securities Act, and concurrently referred it to the Supreme Court of Canada for a ruling on whether Parliament has the constitutional authority to enact the proposed legislation. Under the proposed Act, the Canadian securities regulator would help streamline the securities regulatory system, reinforce financial stability, strengthen enforcement, better protect investors and increase accountability.

The Department supported the Canadian Securities Transition Office[8] in developing the proposed Canadian Securities Act, undertaking regulatory policy analysis and development, coordinating the drafting of legislation, and consulting selected market participants and other stakeholders. It has also been responsible for coordinating the securities-related policy work with other federal departments and agencies. The Department has been engaging provinces and territories and managing intergovernmental issues related to the Canadian securities regulator initiative. It has also supported the Attorney General of Canada and the work related to the constitutional reference cases. Canada continues to work with the majority of provinces and territories toward establishing a single national securities regulator, targeted for 2012.

To promote the continued growth and competitiveness of the sector and enhance financial stability, the government introduced a legislative framework to enable credit unions to incorporate federally through amendments to the Bank Act and other federal Acts.

With the release of the Code *of Conduct for the Credit and Debit Card Industry in Canada*[9] in spring 2010, the Department initiated new measures to provide merchants with greater transparency, flexibility and choice, thereby enhancing competition in the marketplace. The government also enacted the *Payment Card Networks Act*, which gives the Minister of Finance

8. Canadian Securities Transition Office, http://csto-btcvm.ca/home.aspx
9. *Code of Conduct for the Credit and Debit Card Industry in Canada*, http://www.fin.gc.ca/n10/data/10-049_1-eng.asp

the power to regulate the market conduct of the credit and debit card networks and their participants, if necessary.

The government has taken action to protect consumers of financial products and services. Regulations to prohibit negative option billing in the financial sector and to reduce the maximum cheque hold period and provide consumers access to the first $100 within 24 hours were prepublished for public consultation[10] and are being finalized.

All the announced legislative amendments to the *Pension Benefits Standards Act*, 1985 received Royal Assent during 2010–11:

- Priority regulatory amendments that did not require legislative changes, including new defined benefit pension solvency funding rules and the removal of certain quantitative investment restrictions, were adopted in June 2010; and
- Priority regulatory amendments that required legislative changes, including employer use of letters of credit, full funding on plan termination, void amendments and the distressed pension workout scheme, were adopted in March 2011 and came into force on April 1, 2011.

New legislation was adopted further to Budget 2010 to create a domestic counter-measures scheme under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* to allow the government to take action to safeguard the Canadian financial system from foreign entities and jurisdictions that lack effective anti-money laundering / anti-terrorist financing (AML/ATF) measures.

The Anti-Money Laundering and Anti-Terrorist Financing Regime also underwent a 10-year Treasury Board-mandated, independent evaluation of the performance and relevance of the regime. The results of the evaluation can be found on the Department of Finance Canada's website.[11]

Internationally, Canada actively contributed to the work of the Financial Action Task Force toward strengthening international standards in AML/ATF and their global implementation, including engaging with and identifying high-risk jurisdictions, also called for by G20 Leaders. In collaboration with the Office of the Superintendent of Financial Institutions Canada and the Financial Transactions and Reports Analysis Centre of Canada, the financial sector was informed about high-risk jurisdictions identified by the Financial Action Task Force.

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10. *Canada Gazette*, http://www.canadagazette.gc.ca/rp-pr/p1/2011/2011-03-12/html/index-eng.html
11. *10-Year Evaluation of Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime*, http://www.fin.gc.ca/treas/evaluations/amlatfr-rclcrpcfat-eng.asp

Supporting Business Competition, Trade and Foreign Investment

The Department of Finance Canada managed protectionist pressures through participation in international forums, and through trade negotiations to further reduce trade barriers. Moreover, Canada, in consultation with Canadians, continued to develop unilateral tariff relief measures, demonstrating the economic benefits of open trade and carrying through on our commitment to resist protectionism.

In that regard, the broad tariff relief measures announced in Budget 2009 and Budget 2010 were well received by stakeholders and praised internationally. Through these measures that eliminate tariffs on all manufacturing inputs and machinery and equipment, the government provides an annual $400 million in duty savings to Canadian businesses, making Canada a tariff-free zone for industrial manufacturers.

In October 2010, a new framework for the remission of import duties on various types of ships was implemented. Consultations were undertaken in early 2011 on an additional package of tariff relief to benefit Canadian manufacturers.

In support of Canada's Global Commerce Strategy,[12] the Department played a significant role in the negotiation of free trade and investment agreements, as well as in the implementation of such agreements in domestic law. Trade experts from the Department have participated in ongoing negotiations of market access and trade rules in free trade agreements with the European Union, India, the Caribbean Community and Common Market, Ukraine, Morocco, Turkey and Honduras. The Department also contributed to the development of a joint study between the governments of Canada and Japan to assess the benefits of an enhanced economic partnership.

The Department continued its work to advance the Doha Round of World Trade Organization negotiations both through its direct participation in negotiation as well as through analytical support. The Department was a chief participant in the drafting of the implementation bill for the Canada–Panama Free Trade Agreement as well as the development of regulations for that agreement and for trade agreements with Jordan and Colombia.

The Department was active in interdepartmental discussions on border issues that led to the announcement of a shared vision for perimeter security and economic competitiveness between

12. *Seizing Global Advantage: A Global Commerce Strategy for Securing Canada's Growth & Prosperity*, http://www.international.gc.ca/commerce/assets/pdfs/GCS-en.pdf

Canada and the United States[13] on February 4, 2011, which seeks to strengthen security and improve economic efficiency at the Canada–U.S. border.

The Department is now in the final year of its participation in the Global Trade Liquidity Program,[14] an initiative created in 2009 that aims to increase the amount of liquidity available for trade financing in developing countries. Canada's US$200 million commitment is expected to generate up to US$2 billion in trade finance during its participation, ending in 2012.

As co-chair of the G20 Trade Finance Experts Group, Canada, along with Korea, co-authored the April 2010 Trade Finance Report that was submitted to Ministers in April. The report presented a follow-up on the implementation of the London Leaders' Summit commitment to make available at least $250 billion of trade finance, and built on the August 2010 Report presented by the United Kingdom and the United States.

The Department led Canadian efforts to ensure that the framework for international trade finance provided a level-playing field for Canadian exporters, most notably in the aircraft manufacturing sector, so that they are able to compete on the basis of the quality and price of their products, and not on the conditions of government-supported financing.

Substantial and important progress was made on International Monetary Fund (IMF) reform this year. Canada also played an important role, through G20 working groups and at the IMF Executive Board, in the debate to reform the IMF's lending tool kit.

Canada's chairing of the G7 process, co-chairing of G20 Ministerial and Leaders' meetings in 2010, and hosting of the meeting of Finance Ministers of the Americas and the Caribbean in March 2011 have provided an effective platform to promote sound and innovative policies. Among these was the conclusion of negotiations for a general capital increase at multilateral development banks, including the World Bank. At the Toronto Summit, G20 advanced economies agreed to fiscal targets to promote sustainable fiscal finances. At the Seoul G20 Summit, G20 members agreed to develop indicative guidelines to identify large and persistent imbalances that might require policy actions.

Canada was also able to negotiate concrete reforms at the World Bank's International Development Association during its 16th replenishment in 2010, including a new approach that will increase its effectiveness in fragile and conflict-affected states, a new mechanism to respond

13. *PM and U.S. President Obama announce shared vision for perimeter security and economic competitiveness between Canada and the United States*, http://pm.gc.ca/eng/media.asp?category=1&featureId=6&pageId=26&id=3931

14. *Global Trade Liquidity Program*, http://www.ifc.org/ifcext/gfm.nsf/Content/GTLP_home_page

to natural and economic crises, and more accountability for clearly defined performance indicators.

Providing Funding to Provinces and Territories in Support of National Priorities

The Department of Finance Canada continued to play a central role in the design and administration of government policies, including transfer payments, which support provincial and territorial governments in the provision of programs such as social services and social assistance, health care, post-secondary education and programs for children.

Total transfers to provinces and territories increased by $2.4 billion in 2010–11, bringing total federal support to $54.4 billion, the highest level ever. This unprecedented and growing federal transfer support helps provide services, programs and assistance to all Canadians:

- Equalization payments to provinces for 2010–11 totalled $14.4 billion, an increase of $187 million. The overall program is growing in line with the economy, with provincial amounts reflecting changes in the ability of provinces to raise revenues;
- The Canada Health Transfer grew to $25.4 billion, an increase of $1.4 billion or 6 per cent from 2009–10. The Canada Social Transfer for 2010–11 grew to $11.2 billion, an increase of $322 million or 3 per cent over 2009–10; and
- Territorial Formula Financing grew to $2.7 billion, up $166 million over 2009–10.

In addition to the significant federal support through these transfers, the government announced in December 2009 protection payments to Newfoundland and Labrador, Prince Edward Island, Nova Scotia, New Brunswick, Manitoba and Saskatchewan totalling $525 million, ensuring that each of these provinces receive at least the same total funding through the Canada Health Transfer, the Canada Social Transfer, and Equalization in 2010–11 as it did in 2009–10. This measure confirmed in Budget 2010 and included in the legislation that implemented the Budget, the *Jobs and Growth Act*, complemented the extraordinary measures contained in Canada's Economic Action Plan, which are providing timely and targeted stimulus to the Canadian economy when it is most needed. Recognizing that the economic recovery remains fragile, the government announced in December 2010 that it would extend the transfer protection measures by one year into 2011–12.

As the legislation governing the major transfers expires at the end of 2013–14, technical work is underway in preparation for the renewal of the legislation.

Supporting the Recovery

In addition to delivering on year two of Canada's Economic Action Plan, Budget 2010 introduced a number of new and targeted actions to protect Canadians from the global recession and to create jobs and economic growth. Complementing the measures contained in Canada's Economic Action Plan, Budget 2010 introduced measures in the social policy area to further create and maintain jobs and encourage growth for the economy of tomorrow and strengthen Canadian innovation, as well as measures to ensure that all provinces receive at least as much support through major transfers in 2010–11 as they did in 2009–10. Economic Action Plan measures in the social policy area have been implemented in a timely manner and are on track to be completed on schedule.

Ensuring the Ongoing Sustainability of Public Pensions

Department of Finance Canada officials managed and supported the successful implementation of the Canada Pension Plan (CPP) 2007–2009 Triennial Review changes proposed by Finance Ministers in May 2009. These changes to the CPP included measures to better reflect the way Canadians live, work and retire, such as providing greater flexibility for those taking up the retirement benefit before the age of 65 to enable them to combine their CPP benefit with work. The necessary legislative and regulatory amendments pursuant to the Triennial Review changes had received Royal Assent in December 2009 through Bill C-51 (*Economic Recovery Act (stimulus)*). Steps taken in 2010–11 to support implementation included:

- Creating a new CPP regulation pursuant to the Triennial Review changes announced in 2009;
- Working with provinces to obtain formal provincial consent of the legislative and regulatory amendments; and
- Working with officials in Human Resources and Skills Development Canada to ensure that Canadians have access to information on the CPP changes and can contribute to their information documents.

In addition, in 2010–11, Department of Finance Canada officials began preparing advice and analysis for federal, provincial and territorial ministers of finance on directions for the 2010–12 CPP Triennial Review.

Department of Finance Canada officials worked with their provincial and territorial counterparts, as well as with other federal departments, to analyze options for ensuring the ongoing strength of Canada's retirement income system. This work was done by:

- Consulting at the national level on options for ensuring the ongoing strength of Canada's retirement income system for which Department of Finance Canada officials prepared the supporting consultations materials[15];
- Providing the federal Minister of Finance, federal Cabinet ministers, as well as provincial and territorial ministers of finance with advice and analysis on options to ensure the ongoing strength of the retirement income system; and
- Following up on the directions of federal, provincial and territorial ministers of finance on options to ensure the ongoing strength of the retirement income system.

Gender-Based Analysis

The Department of Finance Canada continued to fulfill its commitment to conduct gender-based analysis (GBA) on all new spending and tax policy proposals developed by the Department and presented to the Minister of Finance, where appropriate and where data were available. In its capacity as a central agency, the Department played a "challenge function" role, requiring departments and agencies to consider all relevant factors when developing a policy or program for Budget consideration, including gender issues whenever appropriate.

The Department also continued to enhance its integrated GBA framework. The Department has a champion responsible for promoting GBA, facilitating its conduct and raising its profile. In 2010–11, the GBA champion ensured that employees had access to GBA training sessions, including an introduction to GBA in the Department's orientation sessions for new employees. Examples of high-quality GBAs continued to be available on the Department's internal website, and the Department developed an information sheet, a template, and a checklist to assist analysts in their performance of GBA. The Department also worked with Status of Women Canada on a self-assessment of the Department's GBA framework.

15. *Ensuring the Ongoing Strength of Canada's Retirement Income System*, http://www.fin.gc.ca/activty/consult/retirement-eng.asp

Lessons Learned

A Global Framework for Sustainable Growth

While progress was made under the G20 Framework for Sustainable Growth, considerable work needs to be done to ensure that the process leads to enhanced international policy cooperation and concrete policy actions. As co-chair of the Working Group, Canada needs to take a more active role in bilateral discussions with its G20 partners to garner support for a more concrete Action Plan at the 2011 Leaders' Summit. G20 members will also be doing an accountability report this year, to assess follow-up on the commitments made last year at the Toronto and Seoul Summits. The Department of Finance Canada plans to devote more resources to the Framework in 2011–12 and beyond, to ensure that the appropriate analysis and consultations are done to better understand the range of policy actions that are required to promote the objectives of the Framework.

Trade Negotiations and Foreign Investment and Protection Agreements

The persistent difficulty in advancing the Doha Round of World Trade Organization negotiations has resulted in a greater number of concurrent bilateral/multilateral negotiations, which has in turn increased the importance of efficient and pragmatic trade negotiations. Consequently, negotiating resources should be prioritized and scaled according to the economic importance of the potential trade agreement. Moreover, further consideration should be given to ways of increasing efficiencies in the negotiating and implementing processes.

International Monetary Fund and World Bank Governance Reform

Canada will need to continue to play an active and vocal role to ensure that continuing governance reforms serve the strategic interests of Canada and the global economy as a whole. During 2010, as host of both G8 and G20 Leaders' Summits, Canada had the benefit of important platforms from which to express its views on key issues, including reform of the governance of the International Monetary Fund (IMF) and the World Bank.

Global Financial System

Substantial and controversial new IMF lending programs for Greece and Ireland created challenges for the Department, as both programs were accompanied by considerable international media attention. Substantial departmental resources were allocated to the assessment of these programs as well as the analysis of the potential impact of the European crisis on the global economy. These challenges underscore the need to have flexible human resources capable of shifting focus to the key issues of the moment on short notice, as well as maintaining a close working relationship with Canadian representatives at the IMF.

The global financial crisis continues to impart important lessons to governments around the world about the composition, behaviour and regulation of the financial sector. Canada is currently leading, and needs to remain an integral part of, coordinated international initiatives to re-establish a well-functioning global financial system and to help prevent future crises. The global reform agenda is expected to require a significant Departmental resource commitment over the next few years. In particular, enhanced departmental action will be required to monitor and address systemic risks.

Canada's financial regulatory regime is a model for other countries in many respects. However, our system can still be improved. One key gap that remains is the lack of a Canadian securities regulator. Capital markets are no longer regional but are increasingly national and international in nature. The global financial crisis has shown how important it is for all Canadians to have stable, well-functioning securities markets that earn their confidence. All jurisdictions are being encouraged to join in this effort, which will build on the existing infrastructure and expertise of provincial and territorial securities regulators.

In the meantime, the government is moving forward with the majority of provinces and territories to establish a Canadian securities regulator. This new world-class national securities regulator will be implemented through the voluntary participation of provinces and territories.

Program Activity 1.2: Transfer and Taxation Payment Programs

Program Activity Description

This program activity administers transfer and taxation payments to provinces and territories as well as taxation payments to Aboriginal governments in accordance with legislation and negotiated agreements. Also included are commitments and agreements with international financial institutions aimed at aiding in the economic advancement of developing countries. In addition, from time to time, the government will enter into agreements or enact legislation to respond to unforeseen pressures. These commitments can result in payments, generally statutory transfer payments, to a variety of recipients including individuals, organizations and other levels of government.

2010–11 Financial Resources ($ millions)

Planned Spending	Total Authorities	Actual Spending
54,570.8	56,586.8	56,291.8

2010–11 Human Resources (full-time equivalents—FTEs)

Planned	Actual	Difference
8	6	2

Performance/Priority Status Legend

Exceeded: More than 100 per cent of the expected level of performance was achieved during the fiscal year.

Met all: 100 per cent of the expected level of performance was achieved during the fiscal year.

Mostly met: 80 to 99 per cent of the expected level of performance was achieved during the fiscal year.

Somewhat met: 60 to 79 per cent of the expected level of performance was achieved during the fiscal year.

Not met: Less than 60 per cent of the expected level of performance was achieved during the fiscal year.

Expected Results	Performance Indicators	Targets	Performance Status
Design and administration of the provision of payments to Canadian provinces and territories, which supports delivery of public services to their residents, and to international organizations to help promote the economic advancement of developing countries	Legislation drafted to reflect changes made to transfer programs, as required	According to statutory requirements, or as determined by environment	**Met all** The Department prepared legislation related to adjustments in major transfer programs as required (i.e., measures to implement 2010–11 total transfer protection and consequential amendments to the stabilization legislation).
	Timely provision of information for Government of Canada reports	No target, as materials are generated on an as-needed basis according to environment	**Met all** The Department responded to information requests in a timely, comprehensive manner.

Expected Results	Performance Indicators	Targets	Performance Status
Design and administration of the provision of payments to Canadian provinces and territories, which supports delivery of public services to their residents, and to international organizations to help promote the economic advancement of developing countries	Percentage of reporting requirements met, including reporting to Parliament, the Office of the Auditor General of Canada, internal auditors, the International Monetary Fund and the Organisation for Economic Co-operation and Development	100 per cent of requests fulfilled on time and in an accurate manner	**Met all** The Department fulfilled its reporting requirements in a timely, comprehensive manner.

Performance Summary and Analysis of Program Activity

Fiscal Arrangements with Provinces and Territories

The Department of Finance Canada continued to build technical capacity on transfer renewal and enhance efforts to work with provincial/territorial counterparts on issues aimed at improving the efficiency, equity, accuracy and transparency of major federal transfers, in preparation for the next renewal of fiscal arrangements. The Department is making extensive use of several new technologies, including integrated phone and Web conferencing (teleconferencing) as a complement to in-person meetings. This cost-effective tool allows federal officials to "virtually" meet up to 25 of their provincial/territorial colleagues, as well as to share and collaborate on documents, presentations and applications, and has significantly enhanced the transparency and technical knowledge of federal transfer programs.

The Department continued to pursue its target of 100 per cent accuracy and the on-time transfer of funds to provinces and territories for this program activity. Improvements to models will continue to allow the Department to respond to requests respecting the computation of transfer payments in a timely, more transparent manner.

Commitments to International Financial Organizations

All committed payments were made according to the amounts budgeted. Payments were made to the International Bank for Reconstruction and Development for the Agriculture Advance Market Commitment ($0.95 million), the Multilateral Debt Relief Initiative ($51.2 million), the International Monetary Fund for the Poverty Reduction Growth Fund ($40 million), the International Development Association ($384.28 million), the International Finance Corporation

for the Financial Mechanisms for Climate Change facility ($291.55 million) and the Global Small and Medium Enterprise Finance Innovation Fund ($20 million). Further, requests from the Canadian International Development Agency for issuances or encashments of demand notes to six different facilities (totalling approximately $239 million in issuances) at international financial organizations were all processed with the Bank of Canada according to the requested timeline.

Tax Collection and Administration Agreements

Work continued with provinces and territories during 2010–11 to ensure the ongoing effectiveness of the Tax Collection Agreements, including the work of the Federal-Provincial Co-ordinating Committee on Income Allocation, which is undertaking a comprehensive review of the formula for allocating taxable income among jurisdictions.

The Department also continued to work with provinces to ensure that payments of Harmonized Sales Tax (HST) revenues to participating provinces were in keeping with the terms of the Comprehensive Integrated Tax Coordination Agreements. The Department also worked with Nova Scotia to enter into a new Canada-Nova Scotia Comprehensive Integrated Tax Coordination Agreement reflecting the new modernized HST framework.

Toronto Waterfront Renewal

In July 2010, the Minister of Finance approved an amendment to the terms and conditions of the federal Toronto Waterfront Revitalization Initiative (TWRI), which extends the program by three years to 2013–14. This extension will allow for the completion of the remaining federally funded projects prior to the end of 2011–12, and for the administrative wind-up of the program by the federal TWRI Secretariat no later than March 31, 2014.

Five TWRI projects receiving federal funding were completed during 2010–11, including two waterfront venues (Sugar Beach and the Sherbourne Common South Side Park) that are well used by the public. The federal government provided approximately $53.6 million in TWRI funding during the 2010–11 fiscal year. Federal contribution funding will sunset on March 31, 2012.

Harbourfront Centre received and spent the full complement of its annual funding under the Harbourfront Centre Funding Program, using the funding to cover its operational costs. Accordingly, Harbourfront Centre remained open and carried out its mandate to provide the general public with continued access to cultural, educational and recreational activities.

Budget 2011[16] announced a five-year $25 million renewal of the Harbourfront Centre Funding Program to 2015–16.

Lessons Learned

Transfer Payments

The government has taken steps to increase the transparency of decisions and technical knowledge relating to federal transfer programs. To this end, the Department of Finance Canada will continue to enhance its efforts to work collaboratively with its provincial and territorial counterparts on issues related to transfer renewal, and endeavour to ensure that advance consultations take place when changes are proposed to the transfer system.

However, the need to take quick action to ensure the ongoing fairness, sustainability and predictability of federal transfers, coupled with the complexity of the transfer system may, in some cases, preclude meeting the expectations of provinces, territories and other interested parties for more extensive advance consultations and greater transparency.

Implementing and Reporting on Canada's Economic Action Plan

A human resources strategy that focused on staff retention, recruitment and training proved to be a successful way of achieving the desired outcomes, as the additional workload related to the implementation and reporting on Canada's Economic Action Plan proved to be higher than anticipated. Retention of experienced and knowledgeable professionals within the Department of Finance Canada increased the quality and timeliness of the advice and reporting.

Toronto Waterfront Renewal

Project audits were carried out in 2010–11 on the contracting practices of the Toronto Waterfront Revitalization Corporation (TWRC) and on the Central Waterfront Public Realm Planning and Design Contribution Agreement. The audits found that the TWRC has implemented controls related to previous audit recommendations that dealt with contracting and procurement issues and that the TWRC was complying with the terms and conditions of the Agreement.

In 2010, a consultant engaged by the federal Secretariat for the Toronto Waterfront Revitalization Initiative completed evaluation work related to the York and John Quay projects. The evaluation determined that the projects were successful from multiple perspectives and represented "important early wins in the overall effort to develop the Toronto waterfront."

16. Budget 2011, http://www.budget.gc.ca/2011/home-accueil-eng.html

The summative evaluation of the Harbourfront Centre Funding Program[17] that was completed in 2010 received approval from the Departmental Audit and Evaluation Committee in December 2010. The evaluation concluded that the Harbourfront Centre Funding Program was a relevant program that was well aligned with federal government priorities, roles and responsibilities, and had contributed significantly to Harbourfront Centre's operational stability.

The evaluation of the Harbourfront Centre Funding Program recommended that a decision was required on an appropriate level and mechanism of federal funding to support Harbourfront Centre's operational costs over the short term; the federal government should request a plan from Harbourfront Centre outlining its sustainability strategy over the next two to three years in the context of any renewed funding program.

Program Activity 1.3: Treasury and Financial Affairs

Program Activity Description

This program activity provides direction of Canada's debt management activities, including the funding of interest costs for the debt and service costs for new borrowings. In addition, the program manages investments in financial assets needed to establish a prudent liquidity position. This program supports the ongoing refinancing of government debt coming to maturity, the execution of the budget plan, and other financial operations of the government, including governance of the borrowing activities of major government-backed entities such as Crown corporations. This program activity is also responsible for the system of circulating Canadian currency (bank notes and coins) to meet the needs of the economy.

17. *Evaluation of the Harbourfront Centre Funding Program*, http://www.fin.gc.ca/treas/evaluations/ehcfp-epfhc-eng.asp

2010–11 Financial Resources ($ millions)

Planned Spending	Total Authorities	Actual Spending
33,960.2	104,519.6	104,519.6

2010–11 Human Resources (full-time equivalents—FTEs)

Planned	Actual	Difference
23	24	(1)

Performance/Priority Status Legend

Exceeded: More than 100 per cent of the expected level of performance was achieved during the fiscal year.

Met all: 100 per cent of the expected level of performance was achieved during the fiscal year.

Mostly met: 80 to 99 per cent of the expected level of performance was achieved during the fiscal year.

Somewhat met: 60 to 79 per cent of the expected level of performance was achieved during the fiscal year.

Not met: Less than 60 per cent of the expected level of performance was achieved during the fiscal year.

Expected Results	Performance Indicators	Targets	Performance Status
Prudent and cost-effective management of the government's treasury activities and financial affairs	Achievement of operational and strategic objectives	100 per cent of program line targets achieved	**Met All** The Department ensured that the government's borrowing is cost-effective and that treasury management is in keeping with leading risk management practices. A new medium-term debt management strategy was developed to ensure that funds continue to be raised and managed in a prudent and cost-effective manner. A description of the new medium-term debt management strategy and projections for a number of debt management metrics can be found in *The Next Phase of Canada's Economic Action Plan*—Annex 2: Debt Management Strategy for 2011–12 at: http://www.budget.gc.ca/2011/plan/anx2-eng.html. The Department further enhanced the government's financial and operational risk management practices by revising

Expected Results	Performance Indicators	Targets	Performance Status
Prudent and cost-effective management of the government's treasury activities and financial affairs			the level of liquid financial assets in the form of domestic cash deposits and foreign exchange reserves to safeguard the government's ability to meet payment obligations in situations where normal access to funding markets may be disrupted or delayed. For a more detailed description of a new prudential liquidity plan, consult *The Next Phase of Canada's Economic Action Plan*—Annex 2: Debt Management Strategy for 2011–12 at: http://www.budget.gc.ca/2011/plan/anx2-eng.html. The Department continued to work closely with Crown corporations and advised on Crown corporations' governance and financial affairs, and has taken steps to modernize the currency system.
	Control of financial and operational risks	Risk events do not disrupt program operations	**Met All** The Department exercised sound control of financial and operational risks, without disruptions to program operations, and engaged in the development of new methods to enhance the control and management of these risks. In particular, a new prudential liquidity plan was developed to safeguard the government's ability to meet payment obligations in situations where normal access to funding markets may be disrupted or delayed.

Performance Summary and Analysis of Program Activity

The Department provided advice on the prudent management of the federal debt stock, and worked with Crown corporations and other stakeholders to effectively manage the government's operations. The government continued to issue bonds across all maturity sectors and consulted market participants on future changes in the direction of the debt management policy.

In 2010–11, the government successfully raised funds to achieve its operational and strategic objectives. Debt securities issued have found a ready and diversified investor base thanks to Canada's strong fiscal position and a long-standing policy of maintaining a liquid,

well-functioning securities market. The amount of funding raised was below the aggregate limit of $300 billion approved by the Governor in Council.

The Department supported the Bank of Canada's work to design a new series of bank notes with enhanced security features to reduce the incidence of counterfeiting. The Department also worked with the Royal Canadian Mint to enhance the efficiency of the coinage circulation system, including finding additional cost savings through a review of the Royal Canadian Mint's Memorandum of Understanding for the provision of domestic coinage.

The retail debt program was managed in a low-cost manner with an objective of providing Canadians with access to Government of Canada retail savings products. The government continued to work on reducing overall program delivery costs and on providing Canadians with access to a product that reflects consumer demand.

An evaluation of the Government of Canada's Debt Auction Process was completed in December 2010.[18] The findings showed that the current debt auction structure works well, and supports the transparency, effectiveness and efficiency of debt auctions. The evaluation also confirmed that the auction process is successful in raising necessary funding at a low cost and sustaining a liquid and efficient secondary market for the government's debt.

The Department continued to support and refine the consolidated borrowing framework for Crown corporations. Attention was given to Crown corporation governance issues, refinements to the Crown borrowing program, supporting infrastructure and broader government requirements. A Memorandum of Understanding on cost recovery was successfully negotiated with the participating Crown corporations.

Lessons Learned

The financial crisis has highlighted the importance of prudent debt management for individuals, corporations and governments. With this in mind, the Department of Finance Canada reviewed and updated the medium-term debt management strategy and developed a new prudential liquidity plan to safeguard the government's ability to meet payment obligations in situations where normal access to funding markets may be disrupted or delayed.

Throughout this process, market participants were consulted to ensure that the strategy not only achieves the government's objective of raising stable, low-cost funding, but also preserves a well-functioning Government of Canada securities market (a summary of comments received

18. *Department of Finance Evaluation of the Debt Auction Process – Summary Report*, http://www.fin.gc.ca/treas/evaluations/edap-epatd-eng.asp

can be found on the Bank of Canada's website[19]). This revised package of measures adds new bond maturity dates to smooth out cash flow and increases the government's cash reserves. Together these measures target more prudent and cost-effective management of funds and will help insulate the government's financial position in case of future financial shocks.

An audit undertaken in 2010–11 concluded that the Department's controls and processes related to the management of the supply of coins contribute to the effective management of this function. It also found that the Department adequately monitors adherence to its formal agreement with the Royal Canadian Mint and processes financial transactions with relevant authorities in a timely manner. An opportunity for improvement was identified relating to regular monitoring of inventory against negotiated maximums. The Department took action in 2010–11 to strengthen this area.

Program Activity 1.4: Internal Services

Program Activity Description

Internal Services are activities and resources that are administered to support the needs of programs and other corporate obligations of an organization. These groups are Management and Oversight Services, Communications and Consultations Services, Legal Services, Human Resources Management Services, Financial Management Services, Information Management Services, Information Technology Services, Real Property Services, Materiel Services, Acquisition Services, and Travel and Other Administrative Services. Internal Services include only those activities and resources that apply across an organization and not those provided specifically to a program.

2010–11 Financial Resources ($ millions)

Planned Spending	Total Authorities	Actual Spending
46.0	52.8	50.5

2010–11 Human Resources (full-time equivalents—FTEs)

Planned	Actual	Difference
251	263	(12)

19. *Summary of Comments - 2011-12 Debt Management Strategy Consultations*, http://www.bankofcanada.ca/2011/03/notices/summary-comments-2011-12/

Performance Summary and Analysis of Program Activity

G7, G8 and G20

The Department of Finance Canada was successful in supporting Canada's role in a range of G7, G8 and G20 activities throughout the year. By supporting the Minister of Finance in his role as co-chair of the preparatory Finance Ministerial meeting that preceded the June 2010 Toronto Summit, the Department managed to facilitate important deliverables, such as significant progress under the Canadian co-chaired G20 Framework for Strong, Sustainable and Balanced Growth, important financial regulatory reforms, and significant reforms that enhanced the capacity of international financial institutions.

Human Resources Priorities

The Department continued to strengthen the integration of departmental business and human resources (HR) planning, notably by refining its integrated planning tools and developing a fully integrated business and HR plan for 2010–11 which put forward the Department's annual Human Resources Action Plan.

Under the overall framework set out in the Integrated Human Resources Plan 2008–2011, annual HR action plans were developed to achieve the identified departmental and government-wide HR management priorities in line with the Clerk of the Privy Council's Public Service Renewal agenda. Departmental reports on Achievements and Priorities in the area of HR management were communicated to employees in both 2009 and 2010.

Among the initiatives that were completed were the design of a new Executive Leadership Program, updated People Management policies (*Area of Selection Policy* and the *Choice of Appointment Process Policy*), the launch of an initiative to support the administrative community, and a further reduction in the "Web of Rules" through the development and implementation of a number of EX model work descriptions covering over 120 executive positions.

Managing Resources During Times of Restraint

Budget 2010 announced two significant actions to reduce the growth in operating expenditures:

- Any wage and salary increases set in the *Expenditure Restraint Act* and in collective agreements applying from the beginning of 2010–11 until the end of 2012–13 are to be absorbed by organizations; and
- Operating budgets will be frozen at 2010–11 levels for the next two fiscal years (2011–12 and 2012–13).

As a result, the Department of Finance Canada was required to reduce planned spending by $1.099 million in 2010–11. The required savings were met because of the time period to re-staff positions after the departure of staff, and by measures put in place to reduce goods and services costs in areas such as travel.

These measures are planned to continue in 2011–12. As well, the Department will continue corporate activities such as the collective management of the executive cadre and an integrated risk management approach to manage resources. Strategies have been identified to mitigate the risk that fiscal restraint and other operating constraints may create recruitment and retention challenges that may expose the Department to capacity gaps. These include the analysis of the consequences of restraint in business planning, the assessment and prioritization of operations and activities in light of constraint, and ensuring that resources are deployed to highest-priority areas. Progress in implementing the mitigation strategies is regularly monitored through the integrated planning process to ensure that they are still relevant and beneficial.

Finally, a departmental Recruitment and Staffing Strategy was approved for 2011–12 and communicated to employees. The Strategy takes into consideration the Department's ongoing challenges related to fiscal restraint.

Improvements to the Department's Security Program Framework and Business Continuity Planning Program

On April 1, 2010, the Department of Finance Canada established a dedicated Security Services Division within the Corporate Services Branch. This dedicated unit is responsible for Business Continuity Planning (BCP), Occupational Health and Safety (OSH) and special events security. A shared service provider continues to provide personnel and physical security.

The Department also made improvements to its Security Program Framework by strengthening its departmental Security Plan, updating its OSH and BCP programs, and updating the Departmental Security Policy.

Continuous Improvement in the Quality and Level of Corporate Services Provided to the Department

Work continued to refine processes to support effective departmental performance and management excellence while minimizing the reporting burden. This included steps taken to strengthen the integration of departmental business and human resources planning in an environment of fiscal restraint, to improve the Department of Finance Canada's risk management approach and to enhance its performance measurement framework.

Government-Wide Policies on Internal Control, Managing Procurement, and Departmental Quarterly Financial Reports

In 2010–11, the Department of Finance Canada focused on a variety of initiatives in support of assessing and preparing for implementation of new government-wide policies, including internal controls, managing procurement, and departmental quarterly financial reports. This work included:

- Completing the first annual risk-based assessment of financial reporting controls, as well as the development of an ongoing monitoring program that will guide the Department in its continuous monitoring of the effectiveness of internal controls over financial reporting;
- Preparing for the new requirements for quarterly financial reporting, as well as appropriate process documentation in anticipation of the first set of financial reports to be released in 2011–12; and
- Publishing a future-oriented statement of operations along with accompanying notes.

Access to Information and Privacy

The Department of Finance Canada experienced a substantial increase of 78 *Access to Information Act* files in 2010–11. Despite the increase, the Department was able to maintain a high "on-time" response rate to the incoming requests of 92.4 per cent, and the quality of its responses also remained high, as evidenced by having only six complaints lodged with the Information Commissioner, representing the lowest number of complaints since 1995.

Internal Audit and Evaluation

The Department of Finance Canada updated its risk-based audit plan in March 2011, focusing on strategic areas, ensuring appropriate coverage across the Department, and conducting audits in a manner that optimized resources.

Improvements were also made to the Department's audit methodology, including the implementation of a time reporting system, to improve efficiency and prepare for the 2011–12 practice inspection. The Department's evaluation plan was updated to ensure progress toward achieving coverage of all departmental direct program spending over five years.

The Department also conducted an annual review of the current state of performance measurement information collected by departmental programs in support of program evaluation studies, as required by the Treasury Board *Policy on Evaluation*.

Values and Ethics

The Department of Finance Canada is prepared to implement its new *Department of Finance Code of Conduct* when the new *Values and Ethics Code for the Public Sector* is approved.

Activities of note in implementing the Department's Values and Ethics Action Plan included an internal audit of values and ethics that found the values and ethics program to be properly developed, implemented and managed with the highest standards for the protection of personal information received.

Lessons Learned

Evaluations

The evaluations conducted in the Department of Finance Canada during 2010–11 revealed a few lessons, including that there is a benefit of collecting performance data more systematically and organizing the information to facilitate multi-year and inter-branch comparisons.

Access to Information and Privacy

Enhancements to the capacity of the tracking system for Access to Information and Privacy proved to be effective in determining the impact the retrieval process had upon normal workloads, and put the Department of Finance Canada into a better position to improve on-time responses. Also, Access to Information training sessions have had a good impact on employees' ability to effectively process requests in a timely manner, as evidenced by a noticeable increase in the quality of responses. The Department will continue to deliver these training sessions as required.

Section III: Supplementary Information

Financial Highlights

Condensed Statement of Financial Position
At March 31, 2011 ($ thousands)

	% Change	2010–11	2009–10
Assets			
Financial assets	+1%	159,784,094	158,307,325
Non-financial assets	-16%	153,438	182,497
Total	**+1%**	**159,937,532**	**158,489,822**
Liabilities	+5%	605,609,149	576,684,382
Equity of Canada	+7%	(445,671,617)	(418,194,560)
Total	**+1%**	**159,937,532**	**158,489,822**

Condensed Statement of Financial Operations
For the Year Ended March 31, 2011 ($ thousands)

	% Change	2010–11	2009–10
Expenses	-2%	81,104,703	82,821,083
Revenues	+19%	4,458,997	3,735,802
Net cost of operations	-3%	**76,645,706**	**79,085,281**

Financial Statements

The Department of Finance Canada's Financial Statements *(Unaudited) for the Year Ended March 31, 2011*, can be found online at http://www.fin.gc.ca/afc/pp-pr-eng.asp.

List of Supplementary Information Tables

All electronic supplementary information tables found in the *2010–11 Departmental Performance Report* can be found on the Treasury Board of Canada Secretariat website.[20]

- Details on Transfer Payment Programs
- Green Procurement
- Horizontal Initiatives
- Internal Audits and Evaluations
- Response to Parliamentary Committees and External Audits
- Sources of Respendable and Non-Respendable Revenue

20. See 2010–11 Part III—Departmental Performance Reports (DPR): Supplementary Information (Tables), http://www.tbs-sct.gc.ca/dpr-rmr/2010-2011/index-eng.asp.

Section IV: Other Items of Interest

Sustainable Development Strategy

The Department of Finance Canada's contribution to the Sustainable Development Strategy is available on its website.[21]

Organizational Contact Information

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21. *Sustainable Development Strategy*, http://www.fin.gc.ca/purl/susdev-eng.asp